

RESOLUTION NO: 96-139

**A RESOLUTION OF THE LODI CITY COUNCIL
APPROVING THE ANNUAL INVESTMENT POLICY AND INTERNAL CONTROL GUIDELINES FOR
THE CITY OF LODI**

WHEREAS, Section 53601 of the California Government Code requires the City Council to annually review and adopt the City's Investment Policy; and

WHEREAS, the policy is in compliance with state laws governing the investment of local agency funds; and

WHEREAS, the policy provides internal control guidelines to protect the funds of the City from misappropriation, speculation, and fraud; and

WHEREAS, the policy is annually reviewed by the City's audit firm and has been found to be in compliance with Government Code;

NOW, THEREFORE, BE IT RESOLVED, by the Lodi City Council that the City's Annual Investment Policy and Internal Control Guidelines are hereby reviewed and approved, effective this date.

Dated: September 18, 1996

I hereby certify that Resolution No. 96-139 was passed and adopted by the Lodi City Council in a regular meeting held September 18, 1996 by the following vote:

Ayes: Council Members - **Davenport, Mann, Pennino, Sieglock
and Warner (Mayor)**

Noes: Council Members - **None**

Absent: Council Members - **None**


Jennifer M. Perrin
City Clerk

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INVESTMENT POLICY

1. INTRODUCTION

The purpose of this policy is to state the City's policies and procedures to be used for the investment of surplus funds in a prudent and systematic manner *conforming to all state and local statutes governing the investment of public funds*. This statement is intended to formalize investment-related activities *to provide the highest investment return with maximum security while meeting daily cash flow demands*.

2. SCOPE

The investment policy applies to all funds under the direct authority of the Finance Director/City Treasurer of the City of Lodi, including but not limited to the General Fund, Special Revenue Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds and Trust and Agency Funds. All funds are accounted for in the City's Comprehensive Annual Financial Report. This policy is generally applicable to bond proceeds with consideration given to specific provisions of each issuance.

3. OBJECTIVES

Funds of the City will be invested with the following objectives in priority order:

Safety:

Safety of principal is the foremost objective of the City of Lodi, followed by liquidity and yield. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they be from securities defaults or erosion of market value. To achieve this objective, financial institutions and broker/dealers will be prequalified and monitored as well as investment instruments they propose.

Liquidity:

The investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. This will be accomplished through maturity diversification in accordance with California Government Code 53635 and the State Local Agency Investment Fund with immediate withdrawal provision.

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Return on Investments:

The City's investment portfolio will be maintained to achieve a "market average" rate of return that protects these funds from the effects of inflation and the risks associated with higher returns while preserving and protecting capital in the overall portfolio.

The "market-average" rate of return targeted to achieve this objective is a return which ranges between the annual rate of return on the one-year U.S. Treasury Bill and the annual rate of return for the Local Agency Investment Fund (LAIF) managed by the State Treasurer's Office.

4. DELEGATION OF AUTHORITY

The Treasurer is designated by the authority of the legislative body as the investment officer of the City as provided for in Government Code Section 53607 and is responsible for the investment decisions and activities of the City. The Treasurer will develop and maintain written administrative procedures for the operation of the investment program, consistent with *this investment policy*. *The Treasurer shall hereafter assume full responsibility for such transactions until such time as the delegation of authority is revoked, and shall make a monthly report of such transactions to the legislative body.* In order to optimize total return through active portfolio management, resources shall be allocated to the cash management program. This commitment of resources will include financial and staffing considerations.

5. PRUDENCE

The standard of prudence to be applied by the Treasurer will be the "prudent person" standard, which states "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investments, considering the probable safety of their capital as well as the probable income to be derived". The prudent person standard will be applied in the context of managing the overall portfolio. The Treasurer, acting in accordance with written procedures and exercising due diligence, will not be held personally responsible for a specific security's risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

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6. ETHICS AND CONFLICTS OF INTEREST

The City Treasurer is governed by The Political Reform Act of 1974 regarding disclosure of material financial interests. The City Treasurer shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair the ability to make impartial investment decisions.

7. MONITORING AND ADJUSTING THE PORTFOLIO

The Treasurer will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments, and will adjust the portfolio accordingly.

8. INTERNAL CONTROLS

The *Treasurer* will establish a system of written internal controls, which will be reviewed annually by the City's independent audit firm. The controls will be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions.

9. REPORTING

The Treasurer will submit a monthly investment report to the City Council, in accordance with Government Code Section 53646, to disclose the following information:

- Type of investment
- Institution
- Date of maturity
- Amount of deposit or cost of the security
- Current market value of securities with maturity in excess of 12 months
- Rate of interest
- Performance

10. AUTHORIZED INVESTMENTS

The City will invest surplus funds not required to finance the immediate needs of the City as provided in California Government Code 53601. A list of these instruments is provided below. These limitations, diversification and maturity scheduling will depend upon whether the funds being invested are considered short-term or long-term funds. All funds will be considered short-term except those reserved for capital projects (i.e. bond sale proceeds) and special assessment prepayments being held for debt retirement.

Short-Term Portfolio Diversification

The City will diversify use of investment instruments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

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Permitted Investments	Maximum Maturity
U.S. Treasury Obligations (Bills, notes and bonds)	5 Years
U.S. Government Agency Securities and Instrumentalities	5 Years
Bankers Acceptances	270 days
Certificates of Deposit	5 Years
Negotiable Certificates of Deposit	5 Years
Commercial Paper	180 days
California State Local Agency Investment Fund	Indefinite
Passbook Deposits	Indefinite
Repurchase Agreements	Not Authorized
Reverse Repurchase agreements	Not Authorized
Mutual Funds	Indefinite
Medium Term Notes	5 Years

The City Treasurer will not invest in Repurchase Agreements and Reverse Repurchase agreements. Pooled funds invested for the City by entities such as California State Local Agency Investment Fund, and NCPA may invest in repurchase and reverse repurchase agreements.

Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment will be made in any security which at the time of the investment has a term remaining to maturity in excess of five years, unless the City Council has granted express authority to make that investment either specifically or as part of an investment program and approved by the City Council no less than three months prior to the investment.

Diversification by Instrument	Percent of Portfolio
U.S. Treasury Obligations (Bills, notes and bonds)	100%
U.S. Government Agency Securities and Instrumentalities	100%
Bankers Acceptances	40%
Certificates of Deposit	100%
Negotiable Certificates of Deposit	100%
Commercial Paper	30%
California State Local Agency Investment Fund	100%
Passbook Deposits	100%
Repurchase Agreements	Not Authorized
Reverse Repurchase agreements	Not Authorized
Mutual Funds	15%
Medium Term Notes	30%

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Diversification by Financial Institution

Bankers' Acceptances (Bas)

No more than 25% of the total portfolio with any one institution.

Certificates of Deposit (CDs)

No more than 33% of the total portfolio with any one institution.

California State Local Agency Investment Fund

No more than \$20 million in any one account.

Maturity Scheduling

Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures (payroll, bond payments) as well as considering sizable blocks of anticipated revenue (taxes, franchise fees). Maturities in this category will be timed to comply with the following guidelines:

Under 30 days	10% minimum
Under 90 days	25% minimum
Under 270 days	50% minimum
Under 1 year	75% minimum
Under 18 months	90% minimum
Under 2 years	95% minimum
Under 5 years	100% minimum

Long-Term Portfolio Diversification

Investments and diversification for the long-term portfolio will be the same as the short-term portfolio. Maturity scheduling will be timed according to anticipated need. For example, investment of capital project funds will be timed to meet contractor payments, usually for a term not to exceed three years. Investment of prepaid assessment funds will be tied to bond payment dates, after cash flow projections are made using a forecasting model which considers prepayment rate, delinquency rate, interest on bonds and income on investments.

11. BANKS AND SECURITY DEALERS

The Treasurer will consider the credit worthiness of institutions in selecting financial institutions for the deposit or investment of City funds. These institutions will be monitored to ensure their continued stability and credit worthiness.

Investment transactions will only be made with pre-approved financial institutions. Banks will provide their most recent Consolidated Report of Condition ("call report") at the request of the Treasurer.

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The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will be maintained of approved security brokers/dealers selected for credit worthiness, who maintain an office in the State of California. This includes primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer with the following:

- Audited financial statements
- Proof of National Association of Security Dealers Certification.
- Trading Resolution
- Proof of State Registration
- Completed broker/dealer questionnaire
- Certification of having read the City of Lodi's investment policy and depository contracts

An annual review of the financial condition and registration of qualified bidders will be conducted by the Treasurer. The City will not normally use more than three qualified dealer/brokers to obtain bids.

12 PURCHASE OF CDs FROM LOCAL INSTITUTIONS

To the extent reasonable and within the limits specified above, the Treasurer *may* purchase a \$100,000 Certificates of Deposits from each bank and savings and loan institution located within the corporate limits of the City to promote economic development and as a statement of support for those institutions maintaining an office in Lodi. These investments are limited to those institutions which offer Certificates of Deposit insured by the Federal Deposit Insurance Act.

13. SAFEKEEPING AND COLLATERIALIZATION

All investment securities purchased by the City will be held in third-party safekeeping by an institution designated as primary agent. The custodian will hold these securities in a manner that establishes the City's right of ownership. The primary agent will issue a safekeeping receipt to the City listing the specific instruments, rate, maturity and other pertinent information.

Deposit type securities (i.e., certificates of deposit) will be collateralized. Collateral for time deposits in savings and loans will be held by the Federal Home Loan Bank or an approved Agent of Depository. If collateral is government securities, 110% of market value to the face amount of the deposit is required. Promissory notes secured by first mortgages and first trust deeds used as collateral require 150% of market value to the face amount of the deposit. An irrevocable letter of credit issued by the Federal Home Loan Bank of San Francisco requires 105% of market value to the face amount of the public deposit.

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The collateral for time deposits in banks should be held in the City's name in the bank's Trust Department, or alternately, in the Federal Reserve Bank. The City may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

The amount of securities placed with an agent of depository will at all times be maintained in accordance with California Government Code 53652.

14. ADMINISTRATION

The following administrative policies will be strictly observed:

a. **Payment**

All transactions will be executed on a delivery versus payment basis which should be done by the City's safekeeping agent.

b. **Bid**

A competitive bid process, when practical, will be used to place all investment purchases. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments which meet the maturity requirement. If no specific maturity is required, a market trend (yield curve) analysis will be conducted to determine which maturities would be most advantageous.

c. **Wire Transfers**

All wire transfers will be approved by the Treasurer or Deputy Treasurer. The City's bank will verify each transaction with a predetermined City employee other than the individual sending the wire transfer.

Pre-formatted wire transfers will be used to restrict the transfer of funds with preauthorized accounts only.

d. **Confirmations**

Receipts for confirmation of a purchase of authorized securities should include the following information: trade date; par value; maturity; rate; price; yield; settlement date; description of securities purchased; net amount due; third-party custodial information. Confirmations of all investment transactions are to be received by the Treasurer within three business days.

e. **Pooled Cash**

The City will consolidate into one bank account and invest on a pooled concept basis. Interest earnings will be allocated monthly based on current cash balances.

INTERNAL CONTROLS

GENERAL

Through this system of internal control, the City is adopting procedures and establishing safeguards to prevent or limit the loss of funds invested or held for investment due to errors, losses, misjudgments and improper acts. Internal control procedures are not intended to address every possible situation but are intended to provide a reasonable and prudent level of protection for the City's funds.

1. Objectives

These procedures and policies are established to ensure:

- the orderly and efficient conduct of investment practices, including adherence to investment policies
- the safeguarding of surplus cash
- the prevention or detection of errors and fraud
- the accuracy and completeness of investment records
- the timely preparation of reliable investment reports

2. General Control Policies

The following policies are to be used to safeguard investments:

- **Organization**

A description of responsibilities and procedures for the investment of City funds, lines of authority and reporting requirement will be maintained.

- **Personnel**

Only qualified and assigned personnel will be authorized to approve investment transactions; make and liquidate investments; maintain investment records; and maintain custody of negotiable instruments. Personnel assigned responsibility for the investment of City surplus funds will maintain their professional qualifications by continued education and membership in professional associations.

- **Segregation of functions**

No one having general ledger functions will have responsibility for the investment of City funds.

- **Safekeeping**

All securities are to be held in the name of the City of Lodi. The City will contract with a third party, usually a bank, to provide custodial services and securities safekeeping. Although a cost is involved, the risk of losing physical securities outweighs the fees involved. Preference should be given to custodial services which include reporting services as part of their service, including marking the portfolio to market value, performance evaluation and internal reporting.

INTERNAL CONTROLS

- **Reconciliation of records**

Regular and timely reconciliation will be made of detailed securities records with the general ledger control account.

- **Performance evaluation**

Performance statistics will be maintained and reported monthly as provided in the Investment Policies. The indices to be used is the rate of return for the one-year U.S. Treasury Bill and the annual rate of return for the Local Agency Investment Fund (LAIF) managed by the State Treasurer's Office.

PROCEDURES

1. **Assigned Responsibilities**

- a. City Council responsibilities:

- Adoption of City's investment policies by Resolution
- Review and evaluation of investment performance

- b. Finance Director/Treasurer duties and responsibilities:

- Formulating, recommending and implementing the City's investment policies.
- Approves all investment transactions prior to execution of any transaction.
- Approves broker/dealer arrangements.

- c. Revenue Manager/Deputy Treasurer duties and responsibilities:

- Recommends broker/dealer arrangements
- Recommends investments
- Executes investment transactions
- Maintains records of all investment transactions
- Prepares monthly investment report for City Council review
- Prepare fiscal year end investment reports for City's independent audit firm review
- Review's financial condition of the City's depositories (banks) at least annual for compliance with collateralization requirements under government code and financial condition and reports results to City *Treasurer*.

- d. Accounting Manager duties and responsibilities:

- Maintains general ledger control account and duplicate records of investment transactions.
- Verifies investment records and reconciles detailed securities records with general ledger control accounts.

- e. City's independent audit firm.

- Will review the City's investment policies and procedures and make appropriate recommendations and findings as to compliance and steps to be taken to improve internal controls.